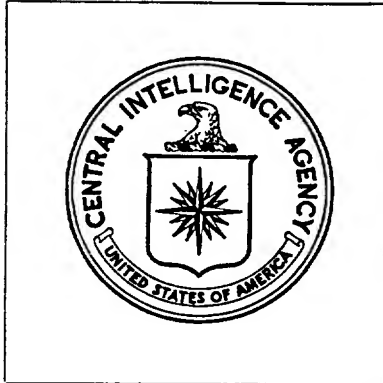


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*Communist Aid and Trade Activities  
in Less Developed Countries, March 1976*

**Secret**

ER CAT 76-005  
June 1976

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# CONTENTS AND SUMMARY OF EVENTS (March 1976)

## Highlights

- A Soviet delegation visiting Kuwait proposed that the two countries invest in joint projects in the USSR and third countries. It also asked Kuwait to make deposits in Soviet banks.
- The USSR extended US \$14 million in credits to Bolivia in January, probably to cover cost overruns at a Soviet-financed tin plant.
- Hungary agreed to construct an aluminum plant in Jamaica, the first East European development project in that country.
- Romania signed agreements to participate in petroleum development with Greece, Mexico, and Jordan.
- Warsaw signed a \$3.2 billion five-year trade agreement with Brazil, which will make Poland the largest East European trader in Latin America.
- China signed new trade agreements with Chile and Peru, offered to sell petroleum to Brazil, and offered to open formal trade relations with Uruguay.

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The USSR and Egypt are maintaining economic relations in the wake of Sadat's abrogation of the Friendship Treaty.

Communist Aid to LDC Oil Industries in 1975 . . . . .	3
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Summarizes 1975 Communist activity to help develop LDC oil industries.

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COMMUNIST AID AND TRADE ACTIVITIES  
IN LESS DEVELOPED COUNTRIES  
MARCH 1976

EGYPT: SOVIET RELATIONS AFTER THE CANCELLATION  
OF THE FRIENDSHIP TREATY

Soviet-Egyptian economic relations continue despite President Sadat's cancellation of the 1971 Soviet-Egyptian Friendship Treaty in March 1976 and the Soviet arms embargo, which has seriously impaired Egypt's combat readiness.

**Military Supplies—Recurrent Antagonism**

The Soviet arms move ended two decades of almost total Egyptian dependence on Soviet arms. Since 1956 Egypt has received \$3.4 billion worth of military hardware from the USSR and has been Moscow's largest Third World arms customer. After peaking in 1970, deliveries dropped sharply in 1972 following Egypt's expulsion of 13,000 Soviet military personnel. Although Moscow provided emergency shipments during and immediately after the October 1973 war, it then intermittently stopped shipments and in mid-1975 virtually cut off all deliveries.

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Cairo, now facing a spare parts crisis and a threat to its combat readiness, is actively pursuing alternative supply sources and equipment refitting services. Supported by aid from Arab oil producers, Cairo has placed \$225 million in orders in the West since 1973. Recent Saudi and Abu Dhabi financial pledges totaling \$845 million will enable Egypt to place additional orders. The non-Soviet arms, however, will not have an impact on the effectiveness of Egypt's military for several years. Deliveries will be slow because Western order books are full. Even after these alternative arms are received it will take time to integrate them into Egyptian forces. Egypt's military preparedness thus will suffer for the next several years unless

Note: The substance of this publication has been coordinated with the Bureau of Intelligence and Research of the Department of State, with the Defense Intelligence Agency, and with the Agency for International Development. Comments and queries regarding this publication are welcomed. They may be directed to [redacted] of the Office of Economic Research, [redacted]

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sufficient parts for Soviet arms can be acquired. Cairo has canvassed East European countries, Yugoslavia, and China for spares with limited success. In 1975 Czechoslovakia agreed to provide [ ] ammunition, and Hungary, [ ] [ ] spare parts for helicopters. More recently China gave Egypt [ ] engines as a gift and possibly some other spare parts.

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### The Debt Issue

Since 1974 the military supply issue has been linked directly to the question of the large debt Cairo owes Moscow. The debt amounts to over \$5 billion (including principal and interest), of which almost \$4 billion is related to military equipment purchases. Although Egypt's economic debt has been repaid on schedule, repayment of the military debt has been deferred through successive reschedulings beginning in 1965. Large-scale repayments were to begin in 1974 under the old rescheduling agreements, but Egypt again requested debt relief. After two years of negotiations the issue remains unresolved. The 1976 trade protocol, meanwhile, provides an interim payment arrangement. Discussions on a long-term settlement may have been reopened during the recent negotiations in Moscow.

### Economic Relations Continue

Moscow has tended to carry out economic agreements in the LDCs despite political differences. Cairo's decision to throw out Soviet military personnel in 1972 produced no interruption of economic projects. During the height of the recent controversy over debt scheduling and military spares, Moscow even offered assistance for developing the Abu Tartur phosphate deposits, which would require at least \$600 million in new credits.

In April 1976 Egypt and the USSR signed their 1976 trade protocol and initiated discussions on a new long-term agreement to replace the one that expires this year. The new protocol calls for \$500 million in Egyptian exports and \$320 million in imports in 1976, leaving a \$180 million surplus to reduce Egypt's debt with the USSR.\*

The USSR provided Egypt \$1 billion in economic assistance from 1956 through 1975. Until the 1973 war, Moscow was Cairo's major aid source. Some \$400 million in Soviet credits remain unused, and about 1,800 Soviet technicians

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\* Recent information indicates that trade for 1976 is planned at \$820 million instead of the \$640 million previously reported.

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were assigned to economic projects in Egypt in 1975. Most of them are scheduled to remain until Soviet projects under way are completed. Those working as advisers in completed plants will gradually be replaced.

Two major Soviet projects are now being expanded: the Hulwan steel mill (Egypt's only integrated steel complex) and the Naja Hammadi aluminum plant. Other projects include fisheries assistance, irrigation and electrification schemes associated with the Aswan Dam, cement plants, textile mills, and agricultural facilities.

\* \* \* \*

### COMMUNIST AID TO LDC OIL INDUSTRIES IN 1975

The bulk of Communist aid to LDC oil industries in 1975 continued to be provided by the USSR and Romania and to be concentrated in Iraq and Syria. Although no new credits were provided, new contracts were signed under old agreements, and \$70 million worth of aid was delivered to ongoing projects. Almost 3,000 Communist oil technicians were operating in LDCs in 1975. CEMA, in its first general cooperation agreements with Third World countries, agreed to study development of oil resources in Iraq and Mexico as part of Eastern Europe's search for stable long-term oil supplies. (For aid in 1956-75, see the table.)

#### Moscow's Programs

##### Accelerate

In Iraq, where Moscow has its most active program, the third stage of the North Rumaila oilfield was completed. The field, exploited entirely with Soviet aid, now has an installed capacity of more than 800,000 b/d. Soviet technicians, however, still are attempting to solve pressurization problems that have limited output to less than 20% of capacity. Production was initiated (10,000 b/d) at the Soviet-assisted Nahr Umar oilfield, and



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Estimated Communist Aid to Third World Oil Industries  
1956-75

Million Current US \$						
	Extended			Drawn		
	Total	USSR	Eastern Europe	Total	USSR	Eastern Europe
<b>Total</b>	<b>1,588.7<sup>1</sup></b>	<b>1,066.8</b>	<b>521.9</b>	<b>798.9</b>	<b>646.7</b>	<b>152.2</b>
Africa	54.9	43.0	11.9	32.6	30.3	2.3
Algeria	18.6	18.6	....	15.2	15.2	....
Ethiopia	11.7	11.7	....	11.7	11.7	....
Ghana	0.9	....	0.9	0.9	....	0.9
Mali	2.0	2.0	....	1.0	1.0	....
Morocco	1.7	0.7	1.0	1.5	0.5	1.0
Nigeria	6.0	2.0	4.0	1.9	1.9	....
Somalia	8.0	8.0	....	....	....	....
Sudan	3.0	....	3.0	0.4	....	0.4
Tunisia	3.0	....	3.0	....	....	....
East Asia	29.8	....	29.8	....	....	....
Indonesia	29.8	....	29.8	....	....	....
Latin America	132.0	73.5	58.5	63.3	40.3	23.0
Argentina	88.3	43.3	45.0	51.9	33.9	18.0
Bolivia	0.7	0.7	....	0.4	0.4	....
Brazil	13.0	5.0	8.0	10.0	5.0	5.0
Chile	20.5	15.0	5.5	....	....	....
Peru	9.5	9.5	....	1.0	1.0	....
Middle East	823.4	438.0	385.4	367.6	264.8	102.8
Egypt	138.3	87.3	51.0	103.3	81.3	22.0
Iran	81.0	77.0	4.0	77.0	77.0	....
Iraq	299.4	195.7	103.7	100.6	64.0	36.6
Jordan	2.0	2.0	....	....	....	....
North Yemen	1.0	1.0	....	0.5	0.5	....
South Yemen	3.0	1.0	2.0	0.6	0.5	0.1
Syria	274.5	49.8	224.7	61.4	17.3	44.1
Turkey	24.2	24.2	....	24.2	24.2	....
South Asia	548.6	512.3	36.3	335.4	311.3	24.1
Afghanistan	149.6	149.6	....	119.3	119.3	....
Bangladesh	16.2	16.2	....	12.4	12.4	....
India	321.7	300.6	21.1	161.4	142.3	19.1
Pakistan	59.6	44.4	15.2	42.1	37.1	5.0
Sri Lanka	1.5	1.5	....	0.2	0.2	....

1. In addition, China has provided credits totaling under \$5 million to the Congo, Nepal, Somalia, and South Yemen for oil surveys.



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work was begun on the 375 mile petroleum pipeline from Baghdad to Basra. In July the USSR signed contracts to exploit the Luhais field in southern Iraq, which is expected to produce 50,000 b/d; financing for the estimated \$50 million undertaking has not been identified.

Already responsible for developing most of Syria's crude capacity, the USSR signed a protocol in December for further prospecting under Syria's current oil development program (1975-80). The protocol was signed despite earlier reports that Soviet oil exploration would be terminated in favor of Western-type concessions.

Elsewhere in 1975:

- India ordered \$20 million in equipment for the Soviet-aided Mathura refinery, slated to become India's largest refinery, with 120,000 b/d capacity. New Delhi also sought Soviet assistance in offshore exploration, for which it had previously employed only Western technology. Meanwhile, Soviet teams continued to explore for petroleum in Assam.
- Soviet technicians struck oil at the first onshore well sunk in its two-year exploration effort in Sri Lanka. The USSR also collaborated with US companies to locate sites for offshore drilling, scheduled to begin in 1976.
- The USSR agreed to expand exploration into new areas in Pakistan with funds remaining from \$45 million of oil development credits committed in 1961 and 1969.
- Moscow agreed to develop new gas fields in Afghanistan, using some US equipment.

#### **Romania: A Successful Sales Promotion Campaign**

Among East European countries, only Romania expanded oil development work in the LDCs in 1975. A 120,000 b/d refinery at Banias, Syria—Romania's largest project in the Third World—got under way in 1975, using \$180 million in Romanian credits. Both Romania and Hungary obtained oil concessions from Damascus, the first known use of this Western-type arrangement by Communist countries.

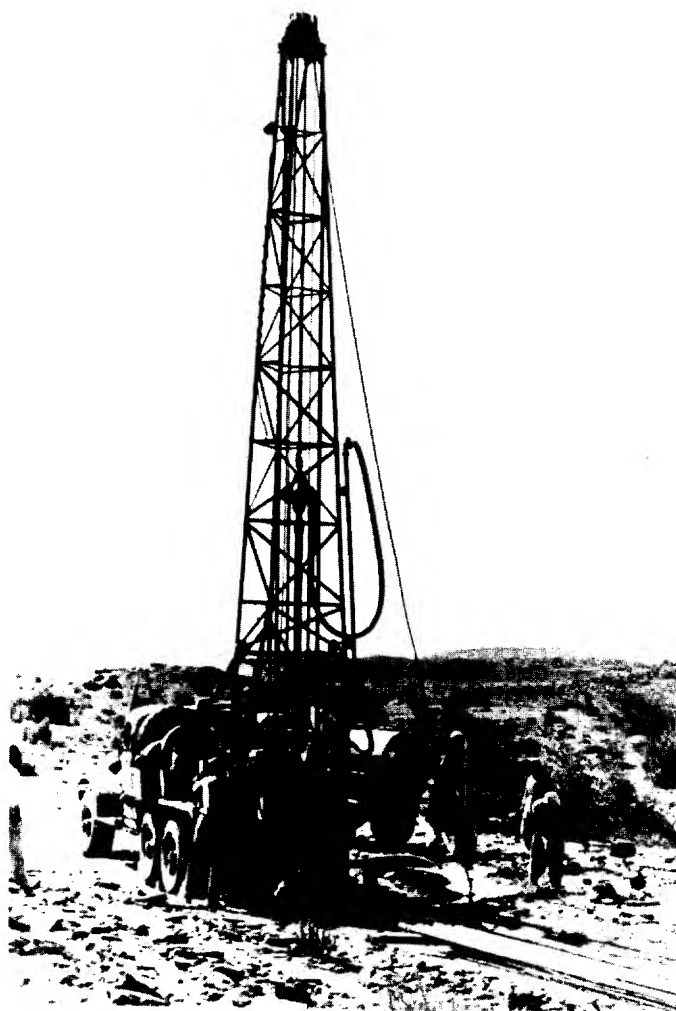
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Romania signed commercial contracts to expand refineries and to develop oil resources with many LDCs. It agreed with India to jointly explore for oil in Libya. It also undertook joint ventures (a) with Jordan for oil exploration and a new refinery and (b) with Ecuador for prospecting—Romania's first joint oil exploration effort in Latin America. Other agreements on refinery expansion were signed with the Malagasy Republic and Trinidad and Tobago.

#### China-Shopping for Expertise

China, which has provided only small amounts of oil development aid, sought oil technology from the Third World. A high-level Chinese delegation visited Venezuela, Mexico, and Trinidad and Tobago in January to discuss the exchange of information on offshore oil development. At the end of the year, a Chinese team arrived in Mexico to study offshore drilling techniques.



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## OTHER ACTIVITIES

### Economic

#### Africa

*Benin.* Soviet officials in Benin recently expressed interest in providing aid for a bus system in Cotonou, mineral exploitation, and fisheries development. A geological study completed by a Soviet team late last year would be the basis for pursuing mineral exploitation. China is the only Communist country that has hitherto extended economic credits to Benin. [REDACTED]

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*Chad.* Moscow completed its drought aid mission in Chad, which involved the transport of 2,500 metric tons of goods to remote areas of the country. Services of Soviet AN-26 transports and pilots were donated to the relief effort. [REDACTED]

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A Chinese delegation visited Chad during March probably to discuss implementation of \$48 million of credits outstanding under a 1973 agreement. [REDACTED]

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[REDACTED]

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*Gabon.* A Chinese delegation arrived in Libreville during March to plan the construction of two medical centers and several agricultural projects under the \$25 million credit extended in January 1975. [REDACTED]

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In January Gabon signed a protocol for Romanian participation in the development of the Belinga iron deposits. The terms of Romanian involvement are not known. [REDACTED]

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*Ghana.* At the end of March, Accra announced that Soviet technicians would arrive soon to reactivate the Kwabenya nuclear reactor, abandoned in 1966. Negotiations with Hungary proceeded on a feasibility study for a bauxite project at Nyinahin, under discussion since 1973. Romania and China signed 1976 trade protocols with Ghana. The Chinese agreement calls for total trade of \$28 million, about a third higher than in 1975. [REDACTED]


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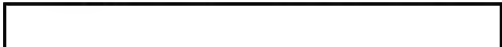
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*Libya.* During a visit to Tripoli in March the Czech Foreign Trade Minister negotiated an agreement to build housing, communications, and industrial facilities for Libya. Earlier in the month, a Libyan government delegation had gone to Czechoslovakia to inspect industrial enterprises. 


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*Mali.* Mali recently announced that China will finance a third sugar mill, in the Sikasso region. Those at Seribala and Dougabougou were completed in the early 1970s. Last month, China inaugurated production at the Severe rice mill, financed under a 1964 credit. 


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*Mauritania.* China plans to request visas for 2,000 Chinese personnel to begin work on the Nouakchott port, which will be financed under a \$55 million 1974 agreement. 

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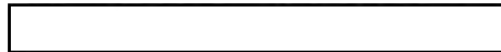
*Morocco.* A Soviet Foreign Affairs Ministry delegation visited Morocco in late March. 


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*Mozambique.* A fourth group of Bulgarian technicians arrived in Mozambique in March under a technical assistance agreement concluded last year. 

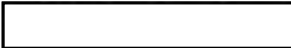
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*Sierra Leone.* Opening ceremonies were held in March for the Manjeh highway bridge, built with Chinese assistance under a 1971 credit. 

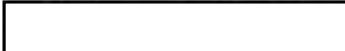
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*Somalia.* Somalia has requested Bulgarian assistance in the manufacture of shoes and textiles and in processing and marketing skins. 

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*Sudan.* A section of the Wad Madani road, built with \$23 million of Chinese assistance, opened to traffic at the beginning of March. 

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*Upper Volta.* China recently turned over the operation of a rice project in the Kou Valley to the Upper Voltan government. The project already has increased annual rice production in the region by nearly 20%. 

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## East Asia

*General.* China plans to begin imports of 100,000 tons of bauxite annually from Malaysia and Thailand, its first such purchases from these countries.

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*Philippines.* Under a 1976 protocol the Philippines will continue to import Chinese crude oil and other products in return for copper, sugar, lumber, and textile products. Peking agreed to eliminate its trade surplus, which in 1975 was \$22 million.

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President Marcos plans to visit Moscow in May, where he is expected to announce the establishment of diplomatic relations and sign the long-pending Soviet-Philippine trade agreement.

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## Latin America

*Bolivia.* The USSR extended \$14 million in additional credits to Bolivia in January 1976 to supplement aid provided under a 1970 agreement. The new credits probably will finance cost overruns at the problem-ridden Potosi tin plant. The foreign exchange cost of the Soviet-built plant has reached \$20 million, from the original \$6 million estimate.

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*Brazil.* In an attempt to redress its huge trade deficit with Brazil, China has offered to export petroleum. In each of the past four years, China has imported more than \$60 million worth of Brazilian products but has exported less than \$1 million annually.

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Brazil and Poland signed a five-year agreement in March calling for \$3.2 billion in trade through 1980. The new agreement supersedes a 1975 agreement that called for \$1.7 billion in trade over 10 years. If the level envisaged in the new pact is achieved, Poland will become the largest East European trader in Latin America.

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Chilean government officials met in February to discuss ratification of an agreement to reactivate Chinese credits extended to the Allende regime. Santiago reportedly has asked China to raise the credit limit to \$100 million from the \$63

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million extended in 1972. China has tied the credit to the purchase of plants to manufacture industrial and agricultural processing machinery. The Chilean private sector, however, has shown little interest in the Chinese equipment. [REDACTED]

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*Guyana.* Ten Guyanese went to China for training in textile technology; the Chinese are building a textile plant under a \$26 million credit. [REDACTED]

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In an effort to initiate formal trade relations with Georgetown, Moscow invited a Guyanese trade delegation to the USSR to discuss the exchange of sugar for machinery and equipment. [REDACTED]

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Hungary has agreed to construct an aluminum plant in Jamaica, the first firm commitment of development assistance from an East European country. The agreement follows a 1975 Jamaican offer to exchange bauxite for Hungarian aluminum technology. Jamaica has had trouble in attracting new Western investment because of its threat to nationalize foreign holdings. [REDACTED]

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*Mexico.* China and Mexico announced plans to cooperate in developing water, agricultural, and fishery resources. The two countries also agreed to exchange petroleum industry technicians. A group of Chinese technicians is in Mexico studying offshore drilling techniques. [REDACTED]

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Mexico and Romania signed agreements in February for extensive cooperation in petroleum development. Romania will provide technical assistance in secondary petroleum recovery techniques in exchange for Mexican assistance in offshore drilling. [REDACTED]

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Poland and Mexico signed a trade agreement in early March under which Poland will construct a coal mine, the first large Communist-assisted project in Mexico. Poland and Mexico also will cooperate in electric power development, nonferrous metals exploration, fisheries, and sulfur extraction. A joint commission was set up to administer these activities. [REDACTED]

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*Peru.* China signed agreements with Peru to import \$57 million worth of metals and fishmeal and to sell rice and kerosene valued at \$23 million. The kerosene sale will be China's first outside of East Asia. Although China will still run a deficit in its trade with Peru, the new agreement is designed to reduce the large deficits of recent years. In 1974, China imported \$72 million worth of metals and other Peruvian raw materials but sold only \$0.6 million worth of goods. [REDACTED]

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China reportedly will sell both the rice and kerosene at reduced prices. Rice will be sold at almost \$50 a ton below world market prices. The two sides may have also reached agreement on the use of some of the outstanding Chinese credits for agricultural equipment, possibly for the Chimbote irrigation project now being studied by China. [REDACTED]

Romania and Peru signed agreements in March to expand industrial development cooperation, possibly drawing on some \$25 million in Romanian assistance provided in 1973. [REDACTED]

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Lima has signed contracts with the Polish firm KOPEX for an engineering study of a mining and energy complex at Alto Chicaha in Northern Peru. Polish technicians completed a feasibility study for the project, to use coal for thermal power generation, under a 1972 credit agreement. [REDACTED]

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*Uruguay.* The USSR agreed to extend the life of a 1969 \$20 million credit agreement for machinery and equipment. About \$3.5 million of the credit has been drawn. [REDACTED]

#### Near East and South Asia

*Bangladesh.* Bangladesh and the USSR signed a protocol in Moscow at the end of March, calling for \$35 million in trade in 1976. Earlier in the month Bangladesh signed its annual trade protocol with Bulgaria. [REDACTED]

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25X1 Bangladesh plans to buy 40,000 tons of wheat for shipment to the USSR in July and August as the first of five installments repaying the 1973 Soviet wheat loan. [REDACTED]

Greece. Under a long-term agreement signed in late March, Romania will undertake oil exploration and exploitation at several locations in Greece. Financial terms were not announced. The two countries also signed a trade agreement calling for \$80 million in exchanges in 1976. Romania will export oil products, machinery, metallurgical products, and vehicles. [REDACTED]

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India. The third session of the Soviet-Indian Economic Commission, chaired by the head of the Soviet State Committee for Foreign Economic Relations, opened in Moscow on 31 March. The commission was set up in 1972 to integrate Soviet and Indian economic and commercial planning. [REDACTED]

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25X1 Iraq. The deputy chairman of the East German planning commission arrived in Baghdad to discuss cooperation in economic planning. Iraq previously has drawn on the services of East European economists in formulating economic development plans. [REDACTED]

Economic talks ended in Moscow with Soviet agreement to assist in the construction of a new power station, a cement plant, and an irrigation network, as well as additional assistance to the petroleum industry. Financial terms of the new Soviet participation were not revealed. [REDACTED]

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Kuwait. Romanian President Ceausescu, on a visit to Kuwait in late March, revived the question of Kuwaiti participation in a \$1 billion petrochemical complex in Romania. Last year, the two sides agreed to study the project, for which Kuwait would provide half of the financing, as well as the crude oil for the plant. Romania also proposed construction of a similar complex in Kuwait. Agreement was not reached, however, suggesting that Kuwaiti objections to Romania's 1975 feasibility study have not been resolved. [REDACTED]

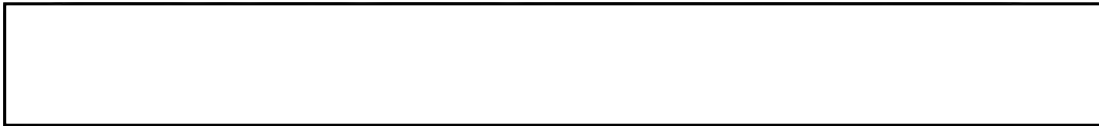
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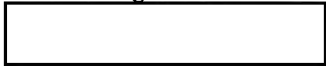


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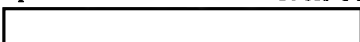
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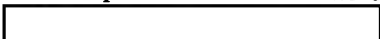
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*Sri Lanka.* China emerged as Sri Lanka's major trading partner in 1975, according to the Sri Lankan press. The announcement was made at the inauguration of the Sri Lankan-Chinese shipping line's services to Europe. 


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*Syria.* Syria's Petroleum Minister inaugurated production at the Czech-built distillation unit at the Homs petroleum refinery. 

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*Turkey.* The 17th annual Soviet-Turkish trade protocol, signed on 4 March, calls for total trade of \$170 million in 1976, slightly less than 1975 trade. In addition, Turkey will ship \$35 million worth of goods to the USSR for repayment of past credits. 


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Construction is scheduled to begin soon on a \$35 million dam on the Arpacay River, which is being financed jointly by the USSR and Turkey. The waters will be shared equally by the countries, as will the 17 million kilowatts of electricity to be produced by an associated hydroelectric plant. 


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#### Military

#### Africa

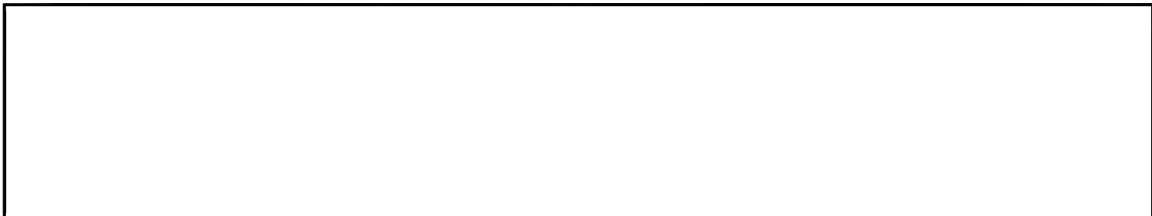
*Kenya.* In March, Moscow offered its first military assistance to Kenya. Nairobi, worried about expanding arms inventories in Uganda and Somalia and facing territorial claims by both, has also been negotiating with several Western arms suppliers. 

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*Malagasy Republic.* The Malagasy Republic is scheduled to receive its first Soviet aircraft – an MI-8 helicopter for VIP use. 

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## Near East and South Asia

*Afghanistan.* A Soviet military delegation arrived in Kabul in mid-March, probably to sign protocols negotiated last year for armored personnel carriers to be used to reorganize Afghanistan's three armored divisions. The additional equipment will do little to increase the army's capabilities because of its rudimentary logistic system and a shortage of skilled manpower. [REDACTED]

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*Iran.* Since 1974 Iran has received [REDACTED] ZSU-23-4 self-propelled anti-aircraft guns that were ordered from the USSR, one of the few Soviet combat systems purchased by Iran. Most of the \$826 million in Iranian military orders placed with the USSR since 1967 were for support equipment. [REDACTED]

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*Sri Lanka.* The ship Moscow gave Colombo last November has been identified as a Mol class patrol boat, probably the naval combatant promised Prime Minister Sirimavo Bandaranaike during her November 1974 visit to Moscow. The Mol is an unsophisticated boat that uses an old type Osa hull. [REDACTED]

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The Soviets have built at least two or possibly three Mols and will quite likely continue to produce a limited number of them. The Mol class was identified for the first time last summer. Sri Lanka might be the first country to receive this ship. [REDACTED]

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